THE LEGISLATIVE ASSEMBLY OF
BRITISH COLUMBIA

REVIEW OF THE ESTIMATES PROCESS IN BRITISH COLUMBIA

SELECT STANDING COMMITTEE ON PUBLIC ACCOUNTS REPORT

2000

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The Legislative Assembly of
British Columbia

Review of the Estimates Process in British Columbia

Select Standing Committee on Public Accounts Report

2000

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VICTORIA BC V8V 1X4 MAR 2 6 2001

Canadian Cataloguing in Publication Data

British Columbia. Legislative Assembly. Select Standing Committee on Public Accounts.

Review of the Estimates Process in British Columbia

"Select Standing Committee on Public Accounts report."

Issued as the Standing Committee's 7th report of the 4th Session, 36th Parliament. Cf. Covering letter.

Submitted to Legislative Assembly of British Columbia. Cf. Covering letter.

ISBN 0-7726-4401-2

1. Budget - British Columbia -Forecasting. 2. Budget process - British Columbia. 3. Finance, Public - British Columbia. 4. British Columbia - Appropriations and expenditures - Forecasting. I. Title.

HJ795.B7B74 2000 352.4'9711 C00-960354-9

Office of the Clerk of Committees
SELECT STANDING COMMITTEE ON PUBLIC ACCOUNTS

Location:
Room 224, Parliament Buildings
Victoria, British Columbia
V8V 1X4

Telephone: **(250) 356-2933**

Toll free at: **1-877-428-8337**

Fax: **(250) 356-8172**

Email: **ClerkComm@leg.bc.ca**

Internet Homepage:
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October 4, 2000

To the Honourable,
The Legislative Assembly of the
Province of British Columbia
Victoria, British Columbia

Honourable Members:

I have the honour to present herewith the *Seventh Report* of the Select Standing Committee on Public Accounts for the Fourth Session of the Thirty-Sixth Parliament.

The *Seventh Report* covers the work of the Committee on the matter of **Review of the Estimates Process in British Columbia**.

Respectfully submitted on behalf of the Committee.

Mr. Rick Thorpe, MLA
Chair

Ms. Evelyn Gillespie, MLA
Deputy Chair

TABLE OF CONTENTS

Introduction 1

Presentation by the Auditor General of British Columbia 2

Auditor General's Response to Questions posed by Committee Members 10

Budget Process Review Panel 15

Conclusion 17

Committee Recommendations 18

Appendices 19

I Members of the Budget Process Review Panel 19

II Recommendations of the Budget Process Review Panel 20

INTRODUCTION

In March 1999, the Auditor General released his report entitled "A Review of the Estimates Process in British Columbia". The report contains the Auditor General's observations and recommendations arising from his examination of how the government prepares and reports its annual budget and the Estimates. In particular, the report focuses upon the key attributes of a well-designed Estimates process (Chapter 1), governance and management of the process (Chapters 2 and 3) and an analysis of specific events that took place in relation to Budget 1996 (Chapter 4).

Your committee focused its attention upon Chapter 4 of the Auditor General's report.

As well, your committee takes note of the fact that a "Budget Process Review Panel" was appointed by the provincial government to review the estimates process in British Columbia, and to report back to the government in September of 1999 with recommendations for improving the process. Your committee was pleased to receive a presentation from the Chair of the Budget Process Review Panel, the details of which are discussed below in this report.

The review panel's recommendations were indeed made public in September 1999. The recommendations reflected the conclusions of the Auditor General's review of the Estimates process in British Columbia. Those recommendations, and the government's response to them, are discussed in this report at commencing on page 18.

PRESENTATION BY THE AUDITOR GENERAL OF BRITISH COLUMBIA

The Auditor General attended before your committee to provide an overview of the key findings and recommendations contained in his report, as well as to discuss the procedure followed by his office in carrying out the review.

The Auditor General explained how this report reflects his office's work over the last several years in addressing government's accountability for performance. In this regard, there have been a series of reports issued jointly by the Office of the Auditor General and the Deputy Ministers' Council, most recently to develop an accountability framework for the public sector to follow in planning for and reporting on its performance. The Auditor General told committee members that, as part of this process, he decided to carry out a review of the budget and estimates process, because the credibility of that process is essential to an effective accountability system.

THE REVIEW PROCESS

Committee members heard that in conducting his review, the Auditor General and his staff interviewed over 40 senior public servants in British Columbia. He emphasized to your committee that in conducting his review of the Estimates process in British Columbia, it was not within his mandate as an officer of the Legislature to determine the guilt or innocence of individuals, nor to impugn motives for the government's actions.

The Auditor General further told committee members that three senior public servants and one former minister were examined under oath. Those individuals were:

- Elizabeth Cull, former Minister of Finance and Corporate Relations;
- Lois McNabb, a director within the Treasury Board staff;
- Brenda Eaton, Secretary to the Treasury Board from Spring 1995 to June 19, 1996, and Acting Deputy Minister of Finance from March to June 19, 1996;
- Michael Costello, Deputy Minister of Finance from December 1991 to March 1996).

These individuals were directly involved in preparing and making final decisions regarding revenue estimates for the 1996/97 fiscal year. Examinations under oath were conducted with respect to the 4 individuals named above to ensure that the public and members of the Legislative Assembly could be confident that they were receiving factual, complete information.

The decisions to conduct these examinations under oath were made by the Auditor General – although initially there had been some requests to give evidence under oath, most interviewees backed away from this desire once it was apparent to them that the Auditor General already had a substantial amount of information.

The Auditor General advised that the Premier was not examined under oath, nor were his advisors, as sufficient information had already been obtained regarding their role in the process.

In the course of his review, the Auditor General also collected information on budgetary processes in other jurisdictions, Canadian and otherwise. The Auditor General's report states that this research revealed an almost unanimous recognition in other jurisdictions of the need to improve budgeting processes.

Upon completion of his review, the Auditor General discussed the findings regarding Chapters 1, 2 and 3 of the report with representatives of the Treasury Board staff, the Ministry of Finance and Corporate Relations, and the Deputy Minister to the Premier. This is part of the usual process to ensure fairness in reporting. However, with respect to Chapter 4 of the report, which dealt with issues surrounding Budget '96, the Auditor General followed legal advice provided by his office's counsel, and circulated findings in that chapter to persons who could be adversely affected by them.

The review was commenced in October 1996, and the final report issued March 16, 1999. There was some concern expressed from within your committee regarding the length of time it took to complete the review and issue the report. In this regard, the Auditor General advised that, in his view there were no undue delays in the process caused by a lack of cooperation or the like, and that the review was lengthy due to its broad scope and the need for much preliminary planning. Moreover, 40 individuals in British Columbia were interviewed as part of the process, 4 of them under oath as discussed above. Many were interviewed more than once. As well, he noted that the process being followed was in fact an inquiry process with the accompanying need to ensure procedural fairness, and the Auditor General received legal advice throughout the review to ensure that he was working within his mandate, as well as to ensure that the principles of procedural fairness were being adhered to. As such, ample opportunity had to be provided to affected individuals to review and provide comment upon aspects of the Auditor General's report which involved them. This process took approximately 6 months, about 50% of which involved seeking comments from senior officials involved.

The Auditor General also acknowledged that some of the interviewees were represented by private sector legal counsel, including 3 of the individuals examined under oath, as well as Doug McArthur, Deputy Minister to the Premier, and Tom

Gunton, the Deputy Minister of Environment, Lands and Parks. However, he emphasized to committee members that at no time did this interfere in the process or cause undue delays.

Communications between the Auditor General's Office and the various legal counsel involved in the matter were not made available for review by your committee. The Auditor General stated that he has received legal advice to the effect that disclosing such correspondence would not be appropriate. While your committee certainly welcomes any further information the Auditor General could provide on this matter, it supports the position taken by the Auditor General which has been stated in the meetings of the committee.

ISSUES SURROUNDING BUDGET '96:

The Auditor General's report examined in detail the events surrounding Budget '96. There were two Estimates tabled that year: one in April by Minister of Finance and Corporate Relations Cull, and one by her successor Minister Petter in June following the general election. Each contained a Revised Forecast for 1995/96, as well as the Estimates for 1996/97.

The Auditor General's review sought to answer the following two questions:

1. Did Budget '96 conform with legislative authorities?

In this regard, the Auditor General found that Budget '96 did indeed conform with legislation and other relevant authorities. However, a question was raised as to whether the Minister of Finance in June 1996, the Honourable Andrew Petter, was required pursuant to the *Financial Administration Act*, R.S.B.C. 1996, c. 138, when he tabled Budget '96, to table a statement showing the expenditure and revenue of the previous year to the most recent date practicable.

In particular, the Auditor General found that senior Treasury Board staff had received verbal legal advice that it was not necessary, pursuant to the *Act*, to table interim financial statements in June 1996 along with the Estimates for the fiscal year 1996/97, because they had already been tabled in April 1996 by Minister Cull. That legal advice was received from Mr. Brian Greer, who at the time was chief legislative counsel, although he has subsequently been seconded to a similar duty in Ireland. The Auditor General also pointed out that he was given to understand that Minister Petter was unaware of any statutory requirement that interim financial statements be tabled in the House along with the budget documents. The Auditor General has acknowledged that the

provision in the *Act* is vague, and has stated that this is a matter for the Legislative Assembly to clarify.

2. Did Budget '96 include complete and reliable information?

The Auditor General found that the information presented in Budget '96 regarding the Revised Forecast for 1995/96, and the Estimates for 1996/97, did not include complete and reliable information.

Revised Forecast 1995/96

With respect to the Revised Forecast for 1995/96 which projected an operating surplus of $16 million, the Auditor General concluded that the operating result was overstated by as much as $272 million when tabled in April 1996 by Minister Cull. He attributed this to Minister Cull's decision to include $156 million of optimism over and above the already-optimistic revenue projection made by staff of the Ministry of Finance and Corporate Relations. He did note that errors by Treasury Board staff in their monthly reporting of revenue from forest products may have made the real deterioration of revenue less noticeable to Minister Cull. In particular, there was an underestimation of $22 million of transfers to Forest Renewal B.C., an inaccurate estimate of a yearend accrual adjustment based on prior years' timber revenue, resulting in a $146 million shortfall, and an accounting error of $62 million.

However, the Auditor General also pointed out the Minister Cull acknowledged in evidence given under oath that she had been "looking for optimism" in the Estimates, due to the trend in estimates from the 2 years preceding 1996 to be too pessimistic, and that she was also striving for a balanced position. As such, she asked her staff to prepare a briefing note providing options for increasing revenue. That note was produced March 25, 1996, signed off by Minister Cull, and the additional revenue was placed in the Revised Forecast for 1995/96. The Auditor General concluded that it was imprudent to take this course of action at such a late point in the fiscal year.

When Budget '96 was tabled by Minister Petter in June, following the provincial election, the same incomplete and unreliable information was presented regarding the Revised Forecast for 1995/96. The Auditor General noted that although Minister Petter was made aware before June 1996 of the existence of draft financial statements from the Office of the Comptroller General showing a deficit of $235 million for 1995/96, he was advised that these figures needed verification, and chose to proceed with tabling the same Estimates as had been tabled by Minister Cull in April 1996.

The Auditor General informed your committee that, in proceeding as such, Minister Petter did not allow sufficient time to do the work necessary to enable him to confirm whether the 1995/96 revised forecast numbers included in the Estimates were reasonable. As well, he noted that by not ensuring that interim financial statements were prepared and tabled with the Estimates in June 1996, as discussed above, Minister Petter was not following precedents which had been set in 1979 and 1991. The Auditor General is of the view that, had those precedents been followed, it most likely would have resulted in a change to the 1995/96 Revised Forecast, thus preventing the controversy which resulted from reporting a surplus.

There was also some concern expressed from within your committee regarding the fact that Treasury Board staff continued to produce comprehensive monthly reports only until mid-February of 1996, and thereafter only reports regarding revised forecasted revenue were produced. In particular, the comprehensive monthly report for January 1996 was issued by Treasury Board staff on February 21, 1996, and indicated a projected deficit for 1995/96 of $256 million. The Auditor General advised committee members that, in his view, it is usual for staff to cease producing comprehensive monthly reports at that time of the year, because they are busy working on the budget for the following fiscal year. As well, he told your committee that normally the comprehensive monthly reports are not "published", but rather represent an internal communication from Treasury Board staff to the Minister of Finance and Corporate Relations. As such, the Auditor General did not investigate this matter further.

Revenue Estimates for Fiscal 1996/97

The Auditor General further concluded that the Estimates of revenue for the 1996/97 fiscal year carried with them a very high probability that any different result would only be on the downside, and that information accompanying the Estimates did not make full and fair disclosure of the extent of the business risk being assumed, nor of the government's plans to address that risk.

In particular, when Minister Cull tabled the Estimates in April 1996, they included revenue $450 million beyond her comfort level. However, following February/March 1996 meetings with the Premier, Minister Cull believed that, if necessary, she could draw upon additional undisclosed revenue sources to compensate for any shortfall. She advised the Auditor General that she expected a considerable part of this to come from Forest Renewal B.C., as well as "other sources" which were not specified by her. In the Auditor General's view, the inclusion of this anticipated revenue was inappropriately risky, and should have been disclosed to the

Legislative Assembly in the Estimates for 1996/97 which were tabled on April 30, 1996.

The audit also examined the role of the Fiscal Budget Steering Committee ("FBSC") in the revenue estimates for the fiscal year 1996/97. In particular, in February 1996 a small informal working group was established by Doug McArthur, Deputy Minister to the Premier, to monitor and provide input into the 1996/97 fiscal year budget process. This group was composed of Mr. McArthur, Brenda Eaton (then Acting Deputy Minister of Finance and Corporate Relations) and Tom Gunton, Deputy Minister of Environment, Lands and Parks. The Auditor General concluded that it was from meetings of the FBSC that the idea to develop an alternate, more optimistic, revenue forecast had its genesis.

The Auditor General also noted that, although he was aware of the disproportionate risks on which the revenue estimates were established, Minister Petter nevertheless chose to re-table the same budget in June 1996. The Auditor General's report states that Minister Petter advised that he did so with the understanding that the budget he was presenting was reflecting the outlook as of April 30, 1996, when Minister Cull had first presented it, rather than the outlook as of June 26, 1996.

Representatives of the Auditor General's office advised your committee that British Columbia does have a very good record regarding average deviation of revenue forecasting in budgets to year-end actual revenue. For example, in Budget '96 the government's deviation was 2 percent on a net basis. Committee members heard that a 2 percent deviation is considered to be an acceptable deviation, and is within the average range, perhaps better than average, when viewed in comparison with other provincial jurisdictions in Canada. However, the Auditor General also submitted to your committee that the process used by the government in arriving at its forecasts must be a more prudent and transparent one, and that transparency and prudency were the two issues of fundamental concern in the Budget '96 process.

REFORM OF THE ESTIMATES PROCESS

Although Chapter 4 of the Auditor General's report did not contain any recommendations, he Auditor General advised committee members that his examination of Budget '96 revealed several weaknesses in the estimates process which, in his view, must be addressed by legislation. According to the Auditor General, those shortcomings are as follows:

- The province's annual budgets do not reflect the fiscal plans of all organizations and enterprises making up the complete government reporting entity (the Offices of the Comptroller

General and the Auditor General do not currently agree on what the reporting entity should be);

- There are no performance measures built into the estimates for most programs (although your committee notes that such measures do exist in some ministries, and others are working toward the inclusion of performance measures in their annual reports);
- No independent comment is made on the accountability aspect of the budget;
- There is no legislative requirement for prudence in budgeting, or adhering to established goals for debt reduction and other financial plans;
- Government is not required by legislation to provide its long-term fiscal plans and to obtain views of them;
- There is no legislative requirement to protect the interests of future generations;
- There is no legislative requirement for government to report on the financial well-being and condition of the province, or to set goals about them in its budgets;
- There is no legislative requirement for government to facilitate continuous public participation in and scrutiny of the development of the expenditure estimates for government programs;
- There is no legislative requirement to prevent government from tabling a budget and immediately calling a general election;
- There is no requirement for Treasury Board and government managers to make representations regarding the fairness, accuracy, reliability and other attributes of information contained in budgets to the Legislative Assembly and the public.

In response to the Auditor General's comments, the Comptroller General told your committee that the government planned to take action following release of the Budget Process Review Panel's report in September 1999. The work of the panel is discussed in more detail below in this report. As well, he advised that Bill 53, the *Budget Measures Implementation Act*, passed by the House, includes a provision clarifying the *Financial Administration Act* requirement for interim financial statements.

He also noted that, as the Auditor General has acknowledged to the Committee, revenue forecasting in British Columbia has undergone gradual improvement from the fiscal year 1982/83 to the present, with the gap in forecasting having been reduced to approximately 2%. Furthermore, he stated that compared with

other Canadian jurisdictions, British Columbia has had a very good record of average deviation.

However, the Auditor General emphasized that the circumstances as they existed when Budget '96 was developed were such that the revenue estimates were disproportionately risky. He also noted that in some other Canadian jurisdictions, the estimates process is much more open, involves more discussion and collection of information from various sources, and that accountability, transparency and prudency is often legislated. The hope that this will come to pass in British Columbia is reflected in the report's recommendations. For example, the Auditor General has recommended that the government formally adopt a policy of prudent economic and fiscal forecasting, and establish the practice of indicating how it has applied the policy in the annual Estimates. "Prudency" in economic and fiscal forecasting has been defined by representatives of the Auditor General's office as making economic assumptions which do not only present risks on the upward or downward side, but rather where the chance of outcome from upturns and downturns is the same. It was emphasized to the committee, however, that there is no finite percentage which is viewed as an "acceptable" range of variation in terms of accuracy in forecasting – the goal is always to reduce the percentage to the lowest amount possible.

AUDITOR GENERAL'S RESPONSE TO QUESTIONS POSED BY COMMITTEE MEMBERS

Members of your committee had the opportunity to put questions in writing to the Auditor General concerning his review of the Estimates process in British Columbia. Those questions, and the Auditor General's responses to them, are as follows:

Which Treasury Board officials advised Minister Petter on June 21, 1996 that the deficit was over $200 million? Who participated in the meeting of June 21, 1996? Which senior Ministry officials advised Minister Petter that he could not rely on the numbers in the draft Consolidated Revenue Fund financial statements prepared by the Office of the Comptroller General until Treasury Board staff had verified them?

The Auditor General advised your committee that it was in fact on June 25, 1996 that Minister Petter was told that the deficit for 1995/96 was $235 million. This information was contained in the draft 1995/96 Consolidated Revenue Fund financial statements provided by the Comptroller General to the Treasury Board staff. Minister Petter was advised of this information in a meeting with Gary Wouters, Deputy Minister of Finance, Chris Trumpy, Assistant Deputy Minister, and a senior Treasury Board staff member. It was Mr. Wouters who advised Minister Petter that he could not rely on the numbers in the statements until Treasury Board staff had verified them.

Who gave advice to Minister Petter that the latest revised forecasts presented to him on June 18, 1996 by Brenda Eaton (indicating a deficit of $164 million) were uncertain, and that better estimates would be available in July?

Your committee was informed by the Auditor General that his review did not reveal that any one particular individual explicitly advised Minister Petter that Ms. Eaton's estimation of the revised forecast for 1995/96, as presented to him on June 18, 1996, was uncertain. On the contrary, Minister Petter told representatives of the Auditor General's office that he came to that conclusion himself, based on the fact that he had received conflicting advice regarding the fiscal outcome for 1995/96. The Auditor General also noted that Gary Wouters advised Minister Petter that it would not be appropriate to update the forecast contained in the budget presented by Minister Cull in April 1996 without more reliable information first being available, and that Treasury Board staff doubted the revenue numbers contained in the revised forecasts presented on June 18, 1996 were correct. He also pointed to a May 28, 1996 memo upon which Ms. Eaton relied when briefing Minister Petter on June 18, 1996. That memo cautioned that

there were still upside and downside risks to the forecast, and that good estimates would not be available until July.

In the course of the audit, what "new information" did Minister Petter receive between June 21st and July 2nd related to Budget '96?

Committee members heard that the Auditor General's review indicated that between June 21 and July 2, 1996 Minister Petter received the following "new information" relating to Budget '96:

(a) With respect to the 1995/96 Revised Forecast:
- Draft financial statements prepared by the Office of the Comptroller General (presented to Minister Petter by Deputy Minister Wouters on June 25, 1996);
- The result of a detailed review of the draft financial statements by Treasury Board staff, estimating the deficit for 1995/96 to be $200 million (presented to Minister Petter on June 28, 1996);
- An explanation of the decline from the Revised Forecast of a $16 million surplus, due to a $255 million decline in forest revenue (presented to Minister Petter by Deputy Minister Gary Wouters on June 28, 1996).

(b) With respect to the 1996/97 Estimates:
- Based upon expenditure containment, other contingency actions initiated, and a review of revenue estimates, Deputy Minister Wouters decided the budget as presented by Minister Cull in April 1996 was plausible. This information was provided to Minister Petter on June 26, 1996.

Who advised Minister Cull that she could tap into additional revenue sources to compensate for any expected shortfall in revenue?

The Auditor General told your committee that it was Ms. Cull's testimony that during a meeting with the Premier, Brenda Eaton, Doug McArthur and Tom Gunton, which occurred February 27th or March 6th, 1996, possible additions to the revenue stream based on cabinet decisions, including Forest Renewal B.C., were discussed. The Auditor General concluded that Ms. Cull was not advised of these additional revenue sources by any specific person – rather, she had general knowledge of these sources based upon discussions that had occurred during meetings with the Premier and his advisors.

Which Ministry officials advised Minister Petter that tabling a new budget and estimates would result in significant delays?

The Auditor General made committee members aware that Minister Petter was given this advice by outgoing Deputy Minister Brenda Eaton and by the new Deputy Minister, Gary Wouters. In particular, on June 18, 1996 Ms. Eaton had briefed Minister Petter

and Mr. Wouters on two briefing documents regarding the budget situation for 1995/96 and 1996/97. It was Mr. Petter's and Mr. Wouters' testimony that at that time, Ms. Eaton discussed with them the time it would take to re-table a new budget and Estimates. It was Ms. Eaton's evidence as provided to the Auditor General in his review that, in her view, it would have taken a few months to re-table a new budget and Estimates.

The purpose of the Fiscal Budget Steering Committee meetings was to "ensure that the up-side and down-side risks were adequately quantified". In your estimation, was this purpose fulfilled? If not, why not?

As discussed briefly above, the Auditor General's report notes that in February 1996, a small informal working group was established by Doug McArthur, Deputy Minister to the Premier, to monitor and provide input into the 1996/97 fiscal year budget process. This group was called the "Fiscal Budget Steering Committee" (the "FBSC"), and was composed of Mr. McArthur, Brenda Eaton (then Acting Deputy Minister of Finance and Corporate Relations) and Tom Gunton, Deputy Minister of Environment, Lands and Parks.

The Auditor General advised your committee that his review evaluated the result of the workings of the FBSC, but did not include an evaluation of the FBSC's performance, nor that of its members. As such, he had no information to offer your committee in response to this particular question. However, he did note that the unwritten terms of reference of the FBSC were to challenge the Treasury Board staff's assumptions, and it carried out this function by looking at different scenarios based upon various new assumptions, and asking staff to develop new revenue estimates based upon those assumptions. A continual part of this process was to quantify the up-side and down-side risks of the assumptions it adopted. The end result was the development of an alternate revenue forecast. When this alternate revenue forecast was challenged during the meetings with the Premier, Minister Cull advised that she was not convinced by any one individual that the forecast was based on a reasonable balance between the up-side and the down-side risk. Rather, she told the Auditor General that her comfort came from the knowledge she had that if there was a shortfall in revenue, she could fall back on other revenue sources, including Forest Renewal B.C.

Why did the Fiscal Budget Steering Committee not keep minutes of their meetings?

Your committee heard that minutes were not kept of these meetings because the FBSC was merely an informal working group. The Auditor General pointed out that, while it certainly would have made his review easier if minutes had been kept, none

of his findings regarding the workings of the FBSC have been contested.

On page 180 of the report, it is noted that as early as December 20, 1995, Brenda Eaton was concerned about pressure on her staff to be more optimistic in their forecasting. Which ministers or individuals were pressuring Treasury Board staff?

The Auditor General made your committee aware that this pressure on Treasury Board staff came through Ms. Eaton, directly from Minister Cull. Ms. Eaton's evidence, corroborated by that of her predecessor, Michael Costello, was that the Premier was concerned that staff were too conservative in their forecasting. Minister Cull also advised the Auditor General that she felt the pressure from some of her colleagues, although she did not specify who.

In the review, were individuals identified who signed off on the higher forestry revenues? Was it the Minister, Deputy Minister, Treasury Board who did it, or someone else?

According to the Auditor General, it was not entirely clear to him precisely who signed off on the higher forestry revenue. However, he did advise your committee that Minister Cull signed off on the higher revenue forecast contained in both the 1995/96 Revised Forecast and the 1996/97 Estimates, and that she took full responsibility for including the higher forestry revenues in Budget '96.

Who specifically authorized the figure of a $325 unit price for softwood lumber used in the alternative revenue forecast, when the Ministry of Forests and the Treasury Board staff used $285 for their March 1996 forecasts, and the Finance Ministry argued it was "unwise"?

Your committee was advised by the Auditor General that Minister Cull, by approving the revenue figures to be included in the Estimates, authorized the use of the $325 unit price for softwood lumber, and that she was aware that this price had been used in the alternative revenue forecast. Moreover, he stated that it was Brenda Eaton's testimony that this figure came from analyses performed by Treasury Board staff at the suggestion of Tom Gunton. She further advised the Auditor General that she was under the impression that Mr. Gunton was providing her with views coming out of the Premier's Office.

On page 152 of the report, it is stated that "some members of Cabinet were implying that they expected a somewhat higher level of optimism in the 1996/97 revenue forecast". Which ministers does this refer to?

The Auditor General noted that both Minister Cull and the Premier were identified to have criticized the Treasury Board staff as being too conservative in its revenue forecasting. Minister Cull,

Michael Costello and Brenda Eaton also testified that other Cabinet members had the same criticisms. However, the Auditor General did not pursue the identities of those other Cabinet members in his review, believing that it was unnecessary in light of the fact that the most effective sources of pressure coming out of Cabinet would be from the Premier and Minister Cull.

Within government, who was the "champion" with respect to the government booking $250 million for the apparent sale of Columbia River downstream benefits? Besides the Minister responsible, who recommended it be included?
The Auditor General advised your committee that, in late 1995, he became aware of the government's decision to include an anticipated receipt of $250 million from the sale of certain rights to the electricity generated in the United States and derived from the Columbia River Treaty. At that time, the Auditor General advised the government that he believed the accounting treatment of funds from the anticipated sale to be inappropriate for budgeting and financial statement purposes. He further noted his opposition in his first report for 1995/96. However, during the course of his review of the Estimates process in British Columbia, he did not investigate this matter further or seek to identify individuals who "championed" this issue.

In response to the inquiry regarding who recommended that this amount be included in revenue, the Auditor General told committee members that the *Financial Administration Act* requires that government accounting policy be approved by Treasury Board.

Did government have an external opinion to support the booking of the above $250 million? If yes, who gave the opinion? Who requested the opinion? What was the turn-around time for the opinion? What was the cost of the opinion?
The Auditor General made your committee aware that, in 1995, the Comptroller General told him the government had obtained views from two different accounting firms on this issue, and that both those views supported the government's position regarding the accounting treatment of the $250 million. The Auditor General disagreed with those views, but did not inquire about the identity of the accounting firms at the time, feeling that his only obligation was to report his conclusions to the Legislative Assembly. The Auditor General further advised committee members that it was his belief that obtaining the accounting opinions was the work of the Comptroller General's office, but he had no further information to offer to the committee regarding the time frame or the costs of the opinions.

BUDGET PROCESS REVIEW PANEL – THE ENNS PANEL

Following the release of the Auditor General's report on the Estimates Process in British Columbia, the government passed Bill 53, the *Budget Measures Implementation Act*, which clarified some issues surrounding the interim financial statements. The legislation also established an Economic Forecast Council to advise the Minister of Finance and Corporate Relations on economic growth forecasts.

In addition, the government announced the formation of a 12-member "Budget Process Review Panel" to review the Auditor General's report and bring forward its own recommendations by September 30, 1999 regarding input into the budget process, scope of the budget and information provided on the budget plan and actual results. In this regard, your committee was advised by the Auditor General that he was satisfied with the actions taken by the government to address the concerns identified in his report. In particular, he noted the first-rate and independent nature of the Budget Process Review Panel, its broad terms of reference, and its tight timeline.

Your committee received submissions from Doug Enns, Chair of the Budget Process Review Panel. Mr. Enns, who is currently Chief Executive Officer of Pacific Coast Savings Credit Union, and is a former chair of the Institute of Chartered Accountants of British Columbia, briefed your committee on the composition, terms of reference and proposed work plan of the panel. A full list of panel members, appointed by Mr. Enns, is attached to this report as "Appendix I". Your committee takes note of the fact that the members of the panel come from a variety of backgrounds, including academic, union, business and civil service backgrounds.

Mr. Enns noted that in its Terms of Reference, the panel was asked to focus upon:

- Which public sector bodies should be included in government's annual budget plan and reports, and what information should be provided on these bodies in the budget plan and reports;
- Means and opportunities for members of the public and the Legislative Assembly to provide input into the budget process;
- Means and opportunities for members of the public and the Legislative Assembly to review the actual results flowing from budgets;
- Any changes to government budgeting and reporting to reflect long run implications for budget decisions;

- Any changes in the form or content of information provided by government in its annual planning, and in its reports on results to improve clarity and usefulness to readers;
- The timing and content of any information released during the year related to the budget, taking into account any differences required during an election year;
- Any legislative changes to implement the committee's recommendations.

Mr. Enns further advised your committee that the panel's work was to be carried out using the following methods:

- Consultation with agencies within British Columbia who might be affected by the proposed changes, including one-on-one interviews with individuals from government agencies involved in the estimates process;
- Consultation with experts;
- Review of materials from other jurisdictions (the Auditor General advised that all research materials collected in his review have been made available to the panel);
- A call for submissions has been made to various public and private sector organizations, and are to be provided to the panel by June 15, 1999 to allow the panel time to give such submissions proper consideration;
- While general public meetings will not be held, and panel meetings are not open to the public, opportunities for public input will be widely advertised in newspapers and on the Internet;
- Mini "round table" sessions for members of the business and academic communities, to discuss specific aspects of the estimates process and possible recommended changes – the University of Victoria School of Public Administration has already agreed to organize the academic round table session ;
- Letters have been sent to all Members of the Legislative Assembly requesting input into recommended changes in the estimates process;
- There is an ongoing dialogue with the Offices of the Auditor General, Comptroller General and the Ministry of Finance and Corporate Relations.

The panel met throughout the summer of 1999, and released its report in September 1999. The report contained 26 recommendations aimed at making the budget process more open and accessible, requiring complete disclosure of all budget assumptions and forecasts, improving accountability, increasing public confidence in government accounting practices and financial information, and making budget and related information more useful and accessible. The panel's recommendations are listed in this report in Appendix II. Your committee plans to receive further presentations from representatives of the panel following the release of its report.

CONCLUSION

Since the committee considered the Auditor General's report on the Estimates Process, much has transpired. In response to the panel's recommendations, the government introduced Bill 2, the "Budget Transparency and Accountability Act". The bill passed third reading and received Royal Assent on July 6, 2000.

The *Budget Transparency and Accountability Act* includes the following provisions:

- Definition of "government reporting entity" to include Crown corporations, with some exceptions
- Requirement that by October 31st of each year, the Minister of Finance and Corporate Relations release to the public a budget consultation paper including a fiscal forecast, key issues to be addressed in the next budget, and information regarding how the public may make their views known on those issues, and refer the paper to a select standing committee of the Legislative Assembly for consideration
- Requirements regarding the timing of presentation and the content of the estimates, public accounts and quarterly reports
- Requirement that the Secretary to Treasury Board attest to the accuracy of all material assumptions and policy decisions underlying the economic and fiscal forecasts for the year
- Requirement that major capital project information be presented with the estimates
- Requirement that the government prepare strategic plan documents including information on priorities, objectives and expected results, and fiscal forecasting, to be released to the public
- Requirement that annual performance plans and annual reports for each ministry and government organization be made public by specific dates
- Requirement that more information be disclosed when special warrants are issued for expenditures
- Requirement that by September 30th of each year, the minister and Auditor General each make public a report on the status of the government's implementation of the recommendations made by the Budget Process Review Panel, until all such recommendations are implemented

Based on the results of the Auditor General's review of the Estimates Process, and the government's response to that report and to the recommendation of the Budget Process Review Panel, your committee makes the following recommendation:

While your committee would certainly welcome any further information the Auditor General has to provide regarding his review of the Estimates process in British Columbia, at this time your committee recommends that the Report of the Auditor General of British Columbia entitled "A Review of the Estimates Process in British Columbia", dated February 1999, and the recommendations contained therein, be accepted.

APPENDICES

APPENDIX I – MEMBERS OF THE BUDGET PROCESS REVIEW PANEL:

Doug Enns, Chair, CEO, Pacific Coast Savings Credit Union

Dr. Stan Shapiro, Former Dean, Faculty of Business Administration, Simon Fraser University

Carole James, President, B.C. School Trustees Association; Chair, Greater Victoria School Board

Don Wright, Director, Forestry, Environment and Corporate Affairs, Weldwood of Canada

John Shields, President, B.C. Government and Service Employees Union

Doris Bradstreet, Chair, Merit Kitchens

John Langford, Professor, Public Administration, University of Victoria

Dale Parker, Chair, Industry, Training and Apprenticeship Commission

Alison Morse, Immediate Past President, Canadian Institute of Chartered Accountants

Doug Hyndman, Chair, British Columbia Securities Commission

Don Calder, Former President and CEO, B.C. Telecom

Hugh Gordon, FCA, Former Partner, KPMG

APPENDIX II – RECOMMENDATIONS OF THE BUDGET PROCESS REVIEW PANEL

The Panel recommends that:

1. Legislation require that a pre-budget consultation document be publicly released by the Government no later than October 31 of each year as the basis for public pre-budget consultations (see Recommendation 2.). The document should update economic and fiscal forecasts from the previous budget and indicate the key issues that need to be addressed in the budget. **Timing**—To be implemented at least for the 2001/02 budget (fall of 2000), with consideration given to implementation for 2000/01 (fall of 1999), perhaps delayed by a month or so, as the basis for the Minister of Finance and Corporate Relations' informal pre-budget consultations.
2. Legislation establish a public pre-budget consultation process undertaken by a select standing committee of the Legislature created for this purpose, with the results reported publicly and to the Minister of Finance and Corporate Relations by December 31. The process should allow for input from interest groups and include opportunities for dialogue with interest groups and the public (round-tables) and mechanisms for public dialogue, such as through web-sites and/or large web-based public forums. **Timing**—To be implemented for the 2001/02 budget (fall of 2000).
3. Legislation require that an annual budget be introduced by the third Tuesday in March each year, unless that is during an election campaign or less than 30 days after a new Government is sworn in, in which case the budget must be introduced as soon as practicable. If the budget is not passed before an election is called, a new budget may be introduced following the election. This recommendation is not intended to preclude introduction of Supplementary Estimates or a new budget during the course of the year. **Timing**—To be implemented for the 2000/01 budget with legislation as soon as possible.
4. The legislative committee system be reformed as proposed by the Public Accounts Committee (creation of sectoral committees that may sit intersessionally) and the legislative committees used for the Estimates debate and review of accountability for results information such as business plans and annual reports. Additional resources will be required and sufficient resources should be allocated so that the committees can be effective. Timing—To be implemented for the 2000/01 budget (spring 2000).

5. Supplementary Estimates should be used whenever possible and practical instead of Special Warrants as a more transparent way to deal with requirements for additional expenditure approval during the year. To discourage use of Special Warrants, legislation should require a report to accompany any request for a Special Warrant and be made public when the Special Warrant is approved. The report should state when the issue arose, what options were considered, why the Special Warrant was chosen and, in the case of a Special Warrant representing more than two percent of total voted expenditure, providing revised fiscal forecasts. However, Special Warrants would still be available for use at the discretion of the Government. **Timing**—To be implemented immediately, with legislation as soon as possible.

6. The Economic Forecasting Council continue to be used as a mechanism to disclose how the budget economic forecast compares to various private sector forecasts developed at the same time. **Timing**—Legislation is already in place.

7. Legislation require that the Government provide, in the budget documents, complete disclosure of all material assumptions and policy decisions underlying the economic, revenue and expenditure forecasts, at least to the level of detail in the 1999/2000 budget. **Timing**—To be implemented immediately, with legislation as soon as possible.

8. Legislation require the Secretary to Treasury Board to attest that the completeness of disclosure required by Recommendations 7 and 9 have been achieved. The Secretary would not be required to comment on the reasonableness of the assumptions. **Timing**—To be implemented immediately, with legislation as soon as possible.

9. In addition to the disclosure required by Recommendation 7, legislation specifically require that the budget documents disclose whether any factors have been included to make fiscal forecasts different from what the Government believes is the most likely result and the amount by which forecasts have been adjusted. The legislation should also require that the disclosed information be the subject of debate and approval in the Legislature. While the Panel believes there are good public policy reasons for adjusting both revenue and expenditure forecasts in the name of prudence, it believes the Government should be responsible for deciding whether or not to do so. **Timing**—To be implemented immediately, with legislation as soon as possible.

10. Legislation require that the Government publish a long-term strategic plan and annually publish updates to the plan prior to or at the same time as the budget, as the basis for accountability for results for the provincial public sector. This

would be a high level document, not a detailed collection of individual business plans. The legislation should require:

- the strategic plan to set out the Government's priorities;
- the strategic plan to specify strategic objectives and expected results;
- the strategic plan to include expected results for standard fiscal indicators such as those recommended by the Canadian Institute of Chartered Accountants (CICA);
- the strategic plan to include a three-year financial plan as the basis for ministry and public body business plans;
- the budget and the business plans of ministries and public bodies to be consistent with the strategic plan; and
- an annual report for the Province published in or accompanying the Public Accounts that compares actual results for a fiscal year with the strategic plan for that year.

Timing—To be implemented for the 2001/02 budget.

11. Legislation require that all ministries and public bodies in the reporting entity publish:
    - annual three-year business plans, consistent with the strategic plan, that focus on accountability for results by including mission, vision, strategic direction, objectives, performance indicators and expected results (performance targets); and
    - annual reports that indicate actual results for a year compared to the year's business plan.

    The legislation should:
    - permit the business plan for the coming year to be combined in one document with the annual report for the preceding year;
    - not require disclosure of information that may affect a ministry or public body's commercial interests; and
    - require performance indicators to be balanced in the sense that they cover all key objectives. Performance indicators should be quantitatively measurable to the extent possible but where not possible, may include qualitative performance indicators.

    Timing—To be implemented over a five year phase-in period, with additional ministries and public bodies participating each year.

12. The Government actively encourage and participate in interjurisdictional efforts to develop standard key performance indicators for the Province as a whole and for specific program areas, and to establish benchmarks for such performance indicators. **Timing**—To be implemented immediately.

13. Legislation require that the Estimates or another budget document include summary business information (mission, vision, strategic direction, key goals and expected results for the coming year) for major programs provided by ministries and non-commercial Crown corporations (i.e., would not apply to commercial Crown corporations or SUCH sector entities). **Timing**—To be implemented over a five year phase-in period, with additional ministries and public bodies participating each year.

14. As accountability for results is phased-in and shown to be effective, input controls should be relaxed to add management flexibility to achieve results. The Government should maintain sufficient controls to ensure budgets are effective at limiting expenditure and that financial transactions are appropriate. Existing legislation requiring staffing limits to be included in the Estimates should be amended to support added flexibility and transparency because these limits are ineffective in controlling the size of the provincial public sector tax-supported staffing but do introduce inefficiencies. However, the Panel believes it is important to continue to measure the use of staff resources. Other examples of input controls that could be considered for being relaxed include transfers among expenditure categories, contract approval thresholds and travel approvals. **Timing**—By the 2001/02 budget, a plan to reduce input controls over time should be developed and published by the Government.

15. Consideration be given to the increased use of performance management techniques for the management of programs and activities throughout the Province but the Panel is not recommending the programs or activities to which performance management should apply, or a specific time frame or approach, as that would be beyond its mandate. **Timing**—At the Government's discretion.

16. Legislation require that financial information provided by the Government be prepared in accordance with Generally Accepted Accounting Principles, with any material variance from the written guidance of the accounting profession (i.e., the Canadian Institute of Chartered Accountant's Public Sector Accounting and Auditing Handbook) explicitly disclosed. The legislation would continue to require that the Province's accounting policy and practice be established by Treasury Board. That is intended to allow, for example, the continued implementation of full accrual accounting and continued definition of the deficit as the difference between revenues and expenses calculated on an accrual basis. **Timing**—To be implemented beginning with the 2000/01 budget, with legislation as soon as possible.

17. Legislation require the summary financial statements to include a statement that reconciles the surplus or deficit with the change in debt. **Timing**—To be implemented beginning with the 2000/01 budget, with legislation as soon as possible.

18. Legislation provide the Auditor General with enhanced authority and responsibility to influence the interpretation of accounting policy. The legislation would require that the annual report of the Auditor General must include an assessment of whether financial information provided by the Government is prepared in accordance with the most appropriate basis of accounting for the purpose of fair presentation and disclosure of the economic and financial substance of provincial public sector activities. The Auditor General's annual report must also include an analysis of what the impact on the financial information would have been if the most appropriate basis of accounting, in the opinion of the Auditor General, had been used. "The most appropriate basis of accounting" in the Auditor General's opinion would have to be consistent with the requirement in Recommendation 16 that financial information be prepared in accordance with Generally Accepted Accounting Principles. However, simply having financial information prepared in accordance with Generally Accepted Accounting Principles is not sufficient if the Auditor General believes that another basis of accounting that is also in accordance with Generally Accepted Accounting Principles is more appropriate. **Timing**—To be implemented immediately, with legislation as soon as possible.

19. Legislation require that the reporting and budgeting entity must be the Expanded Summary Entity, which includes the CRF, Crown corporations and other agencies, and those SUCH sector public bodies that meet the Generally Accepted Accounting Principles criteria for inclusion in the entity. The legislation should also be clear that financial information on non-CRF entities should be included in the Estimates and Public Accounts at a summary level only and that this change does **not** mean that the Legislature is required to vote or approve non-CRF expenditures. **Timing**—The budgeting entity should be expanded to be the same as the current reporting entity (i.e., the Summary Entity) for the 2000/01 budget. Beginning with the 2001/02 budget, the budgeting and reporting entities should be expanded together to phase-in inclusion of the SUCH sector, consistent with Generally Accepted Accounting Principles, over several years. During implementation, due consideration should be given to the dual accountability of school districts and any other institutions with elected boards. Developments in public sector accounting in other Canadian jurisdictions and Generally

Accepted Accounting Principles may affect the order and timing of the phase-in.

20. Legislation require that the Estimates and budget information be prepared in accordance with the Province's accounting policy, including policies on the reporting entity, consolidation and future-oriented financial information. That means, for example, that summary financial statements in budget documents must include both revenues and expenditures of non-commercial Crown corporations and other non-commercial public bodies, such as the SUCH sector institutions (i.e., line-by-line consolidation as required by Generally Accepted Accounting Principles). This, and other recommendations, will place additional resource requirements on TBS and sufficient resources should be allocated. **Timing**—To be implemented beginning with the 2000/01 budget , with legislation as soon as possible.

21. The focus of discussion of overall financial indicators, such as surplus or deficit, total expenditure, total debt, etc. should be on the Expanded Summary Entity basis to ensure there is only one bottom line. That would mean that, except for the purpose of comparability with current budget plans only over the next two fiscal years, separate summary statements for the CRF would not be included in the Estimates, Public Accounts or accompanying documents. Also, legislation would require that any subtotal of the difference between CRF revenue and expense would be referred to by some term other than deficit or surplus, which would be reserved to describe the overall bottom-line. **Timing**—To be implemented beginning with the 2000/01 budget, with legislation as soon as possible.

22. Legislation require summary financial information, especially in the Estimates and Public Accounts, to be presented on both a gross and net basis. That is, the summary statements must at least include an adjustment to present total revenue and total expense on a gross basis, with the form of information supporting that adjustment left to the Government's discretion. Votes would continue to have expenditure approved on a net basis. The adjustment of net revenue to total revenue is not intended to require accounting for foregone revenues and other tax expenditures, although disclosure of estimated tax expenditures in the budget documents is encouraged. **Timing**—To be implemented beginning with the 2000/01 budget, with legislation as soon as possible.

23. Legislation apply the principles of transparency, consistency and comparability by requiring that:

    - whenever expected results are disclosed in a plan, the corresponding actual results must be disclosed in a comparable way in a subsequent report, whether that is the Estimates and Public Accounts or a Crown corporation's business plan and annual report;
    - business plans and annual reports must be comparable across similar organizations;
    - Quarterly Reports must provide revised fiscal forecasts; and
    - that all budget process documents must be in plain language and include summaries.

    Timing—To be implemented immediately, with legislation as soon as possible.

24. Legislation establish the following specific release-by dates:

    Quarterly Reports - By 60 days after the end of the quarter

    Public Accounts and Government Annual Report - By the August 31 following the fiscal year end

    Annual Reports of Ministries and Public Bodies - By 90 days after the public body's fiscal year end

    Business Plans of Ministries and Public Bodies - If separate from the previous year's Annual Report, by 30 days after the start of the fiscal year

    The legislation should also provide the Comptroller General authority to require financial information from public bodies within timeframes and in the form required by the Comptroller General. Meeting these timelines, especially as the Expanded Summary Entity is phased-in, will require the allocation of appropriate resources to the Comptroller General and by public bodies. **Timing**—To be implemented beginning with the 2000/01 budget and 1999/2000 Public Accounts, with legislation as soon as possible.

25. Proposed reforms to capital budgeting should be implemented by legislation in accordance with the principles proposed by the Auditor General, including closer integration into the process of developing the operating budget and more disclosure of proposed capital projects, including amounts, objectives business cases and performance targets for individual major projects. Budget documents should provide disclosure about ongoing projects and the amount approved for new projects but need not provide details of new projects not yet announced. Disclosure for those projects should be made when they are announced. **Timing**—To be implemented at least by the 2001/02 budget.

26. Legislation should require the Government and the Auditor General to both report annually to the Legislature on the implementation of this report, until implementation is complete and should require a scheduled independent review of the budget process in eight to ten years. **Timing**—Reports required by September 30 of each year beginning in 2000.